HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Calgary CMA

Canada Mortgage and Housing Corporation

Date Released: Fall 2007

New Home Market

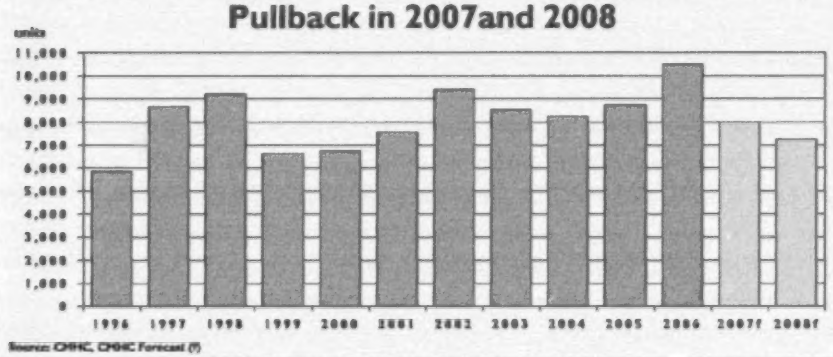
Single-Detached Starts Pull-Back

Total housing starts in the Calgary CMA have pulled-back from the record of 2006. By year-end total housing starts are projected to reach 14,250 units, about 16 per cent below the record level set in 2006. Year-to-date August, single-detached starts have tallied to 5,417 units, down over 27 per cent from the 7,450 units that were started in the same period last year. Multi-family starts have not weakened as much as single starts and after eight months have reached 4,001 units, a drop of just over 12 per cent from the 4,551 units started in the same period last year. A record level of active listings in the resale market, rapidly rising amortization costs caused by large price movements and an upward drift in mortgage rates will impact demand in 2008. Total housing starts in 2008 are projected to decrease by approximately seven per cent to 13,250 units, a level close to production in 2005.

Figure 1

Calgary CMA – Single-Detached Starts

Pullback in 2007and 2008



Source: CMHC, CMHC Forecast (f)

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The record level of single-detached starts experienced in 2006 is working its way through the construction process toward completion. The continuous monthly year-over-year drop in single-detached starts has reduced the level of construction activity. At the end of August, there were 5,715 units under construction, down eight per cent from a year earlier. Construction activity remains at a high level but has trended down from a peak of 6,509 units under construction in October 2006.

So far this year, most single-detached homes completed have been absorbed. In August, 825 single-detached units were completed while 824 units were absorbed, causing inventory to rise by one unit and bringing the overall inventory to 419 units, down 13 per cent from August 2006. The completed and not absorbed inventory consisted of 400 show homes and 19 spec homes which is low by historical standards. It is uncertain how many of the 5,715 units under construction are spec homes but a high level of homes for sale in the resale market will continue to compete with new home sales and negatively impact housing starts.

By year-end single-detached starts are projected to reach 8,000 units, down almost 24 per cent from the record level of 2006. Supply in the resale market is expected to remain elevated and continue to compete with new home sales going into 2008. The rapid rise in new home prices has also impacted demand. However, many homeowners are carrying a significant amount of equity in their existing home and this will allow them to buy new if they so choose. In 2008, single-detached starts are forecasted to moderate to 7,250 units, down over nine per cent from the level of 2007.

Multi-family starts will moderate in 2008

Multi-family starts, which include semi-detached units, rows and apartments, have reached 4,001 units to the end of August 2007, about 12 per cent below the corresponding level of last year. Multi-family starts in 2007 are expected to remain near the production level of 2006. Price escalation in all segments of Calgary's homeownership market have maintained strong demand for condominiums, and a large number of building permits for this type of construction are pending. By the end of 2007, multi-family starts are projected to reach 6,250 units, down about five per cent from last year. In 2008, multi-family starts are forecasted to moderate to 6,000 units, a decrease of about four per cent from 2007.

The high level of multi-family starts has increased the units under construction to 8,948 units as of August, up over 11 per cent from a year ago and to the highest level since 1982. Units under construction are expected to peak within a year as demand for condominiums begin to ease with the lower level of net migration. Some potential first-time buyers will also need more time to save a down payment and this will delay their purchase. Speculative transactions in condominiums will likely ease too as rapidly rising prices level off and reduce the opportunity for short term trading gains.

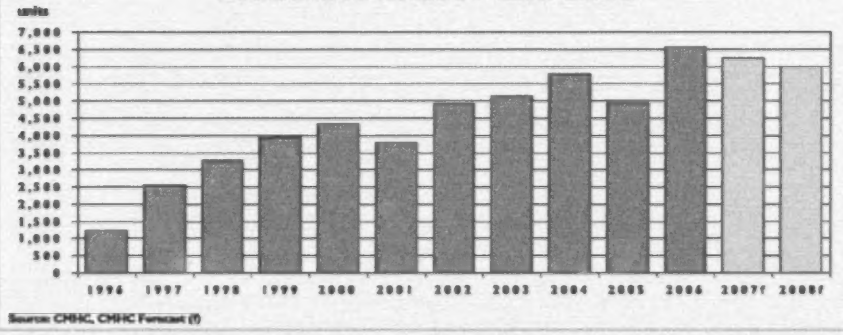
Most of the multi-family product completed this year is being absorbed. Year to date, multi-family completions have reached 2,898 units while absorptions have tallied to 2,885 units. At the end of August, there were 109 multi-family units completed and not absorbed, low by historical standards but up 25 units from a year ago.

New house price growth rate decelerates in 2008

For the Calgary CMA, the year-to-date August average price of an

Figure 2

Calgary CMA – Multi-family Starts
Moderate in 2007 and 2008



Source: CMHC, CMHC Forecast (f)

absorbed single-detached home was $453,509, up almost 32 per cent from the same period a year ago. Note, the absorbed average price reflects the price of home when it is completed and absorbed but likely negotiated and priced before construction began. The sharp increase in house and land costs experienced in 2006 and to a lesser extent recently will continue to move the average absorbed price upward. By year end, the 2007 annual absorbed average price of a single-detached home is expected to reach $475,000, up over 34 per cent from 2006.

The rapid price growth of a new home experienced in 2007 is expected to ease significantly in 2008 as wages, material, and increases in the price of land moderate. Year-to-date August, the average wage growth was under five per cent, about half the growth rate experienced a year ago. The growth rate of land prices has decelerated in 2007, from an extraordinary 49 per cent year-over-year gain in January 2007 to 16.5 per cent higher in July 2007. The New House Price Index (NHPI) is projected to have a 2007 annual average rise of about 16 per cent. The increase in the NHPI for the Calgary CMA is forecasted to return closer to its historical average next year and is project to go up by an annual average of seven per cent in 2008.

Price escalation in the new home market will be moderated by a very large supply of single-detached homes in the resale market. Home builders will compete for new home sales as potential homebuyers have more selection. Competition from the resale market coupled with moderating supply factor input costs will moderate price growth. The average absorbed price of a single-detached home in 2008 is forecasted to reach $550,000, up about 16 per cent from the projected level of $475,000 in 2007.

Resale Market

The Calgary housing market continued to intrigue market watchers and participants as home prices set monthly records in early 2007. Buyers came forward at a record pace in January 2007, reversing the slowdown in sales growth experienced in the second half of 2006. By the end of the first quarter of 2007 sales were more than 10 per cent above the record pace set in 2006 and home prices rose briskly.

Rapidly rising prices had a substantial impact on mortgage carrying costs, and many first-time buyers have been adversely impacted. Meanwhile, listings have risen sharply and to a level that has dramatically reduced upward price pressure. While sales growth has eased, resale housing units are still projected to reach 33,100 sales in 2007, just eclipsing the record that was set in 2006. In 2008, MLS sales are forecasted to decrease by over four per to 31,700 units, representing the third highest level of sales on record.

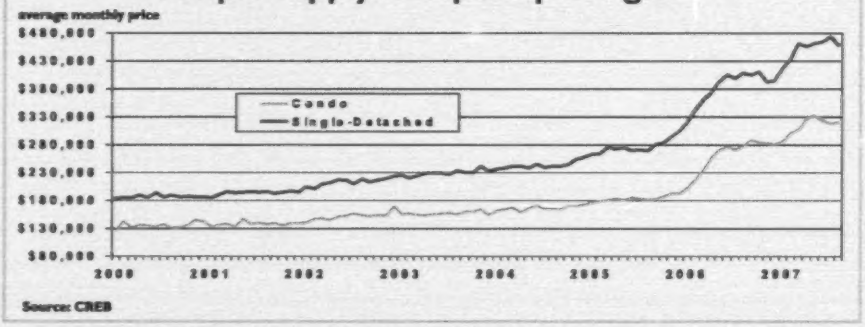
At the end of August, total MLS sales were 2.3 per cent ahead of the record pace set in 2006 in the Calgary CMA. Although total sales are at a record pace the composition is revealing a divergence between single-detached homes and condominiums. Year-to-date, single-detached sales are 4.7 per cent ahead of last year's pace and have only been down once on a monthly basis, year-over-year. It appears move-up buying has not been too adversely impacted by the approximate 21 per cent increase in year-to-date average price. Many move-up buyers enjoyed the rapidly rising real estate values and had a large down payment from their existing home.

Condominium Sales Cooling

On the other hand, condominium sales have experienced four con-

Figure 3

Calgary CMA MLS® Average Prices
Ample supply dampens price gains



Source: CREB

secutive monthly sales decreases, year-over-year. June, July and August each experienced sales decreases of over 20 per cent. First-time buyers have not enjoyed the windfall gain of rapidly appreciating real estate prices and many potential first-time buyers have delayed homeownership. Another telling sign that the first-time buyer is being significantly impacted by the rapid price rise is the shrinking proportion of condominium sales. Condominium sales were averaging over 29 per cent of the market in 2006 but this proportion has dipped to about 25 per cent between the May and August 2007 period. Year-to-date, condominium sales are down only 3.6 per cent but this is because of the surge in sales during the first quarter.

In 2006, the expectations of many first-time homebuyers went from a single-detached home to an apartment condominium because of the rapid 38 per cent rise that took the annual average price of a single-detached home from $250,832 in 2005 to $346,675 in 2006. Condominium prices have been escalating too. The average price of a resale condo was $285,918 in January 2007 and after a quarter of surging demand, the average price hit a high of $332,237 in May 2007. This is higher than the average price of $320,246 for a single-detached home in the Calgary CMA as recently as January 2006.

Increased Supply

Supply in the resale market has been expanding rapidly. With more selection, buyers are taking more time to buy. The average number of days on the market for a single-family and condominium unit has grown to 39 and 35 days, up 13 days and 12 days, respectively, from a year ago August. With supply growing faster than demand, active listings have reached the highest level on record as of August 2007, quite the reverse from April 2006 when active listings were at the lowest level on record.

Demand for housing remains strong in the Calgary CMA but the high level of supply has extended sales times and put downward pressure on price growth as listings compete for sales. At the start of the year, total supply in the resale market was just over one month but this has expanded to about 3.5 months and is trending up. Supply will continue to expand and active listings are expected to peak in 2008 as the high level of new home construction is completed and new home buyers list their existing property.

Rental Market

In 2006, the demand for rental accommodation in the Calgary CMA was exacerbated as net migration reached a record of 31,223 people and created waiting lists for vacant apartment units. In October 2006, the CMHC rental market survey for the Calgary CMA found the apartment vacancy rate for a two-bedroom apartment to be 0.5 per cent, equal to the lowest rate on record. The October 2006 survey also found the average two-bedroom rent to be $960 a month in the Calgary CMA.

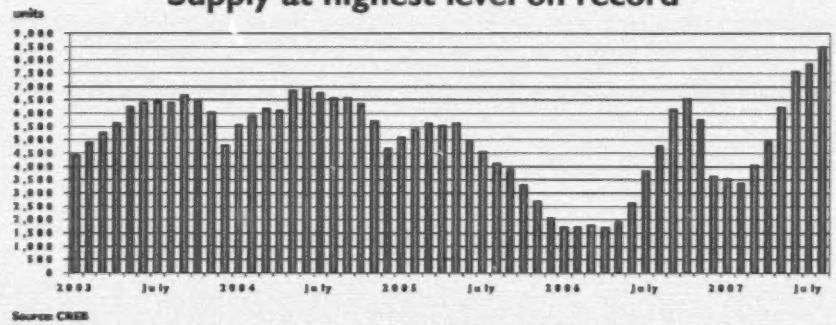
The CMHC spring rental market survey was revived this year after being discontinued for over 10 years. The April 2007 survey found the rental market to be tight. In the Calgary CMA, the average vacancy rate of a two-bedroom apartment was 0.6 per cent. The survey also found the two-bedroom average rent to be $1,037 per month.

The demand for rental accommodations remains strong in the Calgary CMA but a drop in net migration will likely ease demand pressure in the rental market. With a record level of condominium units under construction, more supply to the rental market will likely be indirectly added by investor purchased condomini-

Figure 4

Calgary CMA – MLS® Active Listings

Supply at highest level on record

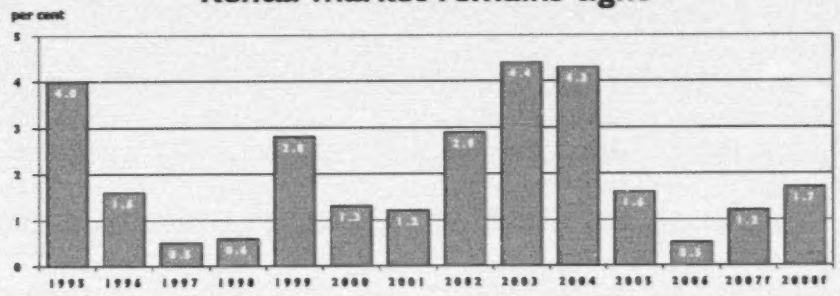


Source: CREB

Figure 5

Calgary CMA – Apartment Vacancy Rate

Rental market remains tight



Source: CMHC, CMHC Forecast

ums. Previous research found that approximately 18 per cent of condominium apartments are rented. Net migration is expected to moderate in 2007 and into 2008 as economic opportunities have improved outside of Calgary. The rapid escalation in housing cost relative other parts of the country will also impact net migration to Calgary.

CMHC's next rental market survey will be done in October 2007. At this time, vacancy rates are projected to be around 1.2 per cent while average two-bedroom rents are forecasted to be $1,075 per month. In 2008, the average rent of a two-bedroom apartment is forecasted to be $1,140 with an average vacancy rate of 1.7 per cent.

Economy

The fundamentals that support the Calgary Housing market remain robust, though the rapid economic growth experienced in 2006 will not be repeated during the forecast period. The key economic indictors of the economy that are relevant to Calgary's housing market are still expanding, and would be the envy of most jurisdictions. However, the growth rates of many of these indicators in 2007 have moderated from 2006 and this trend is expected to continue in 2008.

Net Migration Easing

A main driver of housing demand is population growth, natural increase plus net migration. Calgary is expected to grow and net migration has been a major contributor to Calgary's population growth. Net migration is an important element of housing demand in that people relocating need housing on arrival, be it rental, resale or new. The Calgary CMA experienced a surge of 31,223 more people coming than leaving in 2006. More people are still coming but there are indications that net migration will be less this year due to the improved economic opportunities outside of Calgary. The City of Calgary's April 2007 civic census reported a decrease in net migration of about 31 per cent from the April 2006 civic census. Net migration is expected to add another 22,000 people to the Calgary CMA in 2007, a significant gain but a drop of about 29.5 per cent from the level of 2006. In 2008, 18,000 more people are expected to come than leave the Calgary CMA.

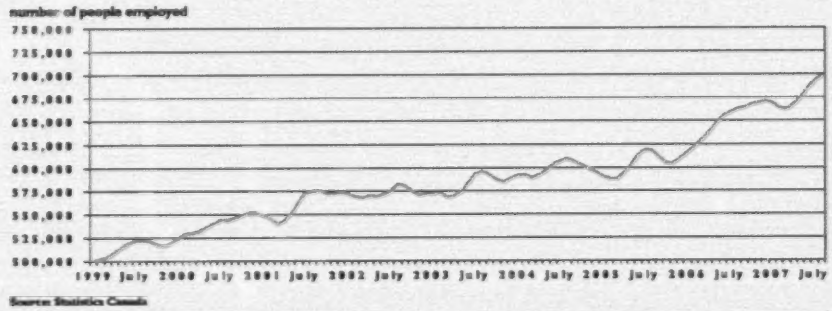
Non-Residential Construction Rising Rapidly

While residential construction moderates, non-residential construction is growing at a blistering pace. Year-to-date August, the City of Calgary has approved over two billion dollars in non-residential construction investment, up almost 54 per cent from a year ago. Any

Figure 6

Calgary CMA – Actual Employment

At 698,100 in August, record high, up 5.2 % from a year ago



Source: Statistics Canada

slack in residential construction will be picked-up in non-residential construction. The unemployment rate in the construction industry was 2.3 per cent in August. Investment in non-residential construction is expected to remain high for the remainder of 2007

Job Creation Remains Robust

Economic opportunities outside of Calgary and Alberta are improving as indicated by a national unemployment rate of around six per cent. Even with good labour markets in other parts of the country, Calgary will still continue to be a draw for those looking for a new opportunity.

The labour market in Calgary has been tight for 2007 and this is expected to be the case in 2008. Employment opportunities are plentiful in Calgary and this will continue to attract people. Job creation in 2007 is easing from 2006 but it is still high at a projected 4.4 per cent growth rate. Job creation in 2008 is projected to be lower than 2007 and grow at 2.1 per cent. Despite this softening, the majority of jobs created will be full-time jobs. The expanding economy and labour market has increased the number of people employed to 698,100, as of August 2007, representing the highest number of people working in the Calgary CMA on record.

Mortgage Rate Outlook

Mortgage rates are expected to remain flat through the end of 2007. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

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Forecast Summary
Calgary CMA
Fall 2007

	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	26,511	31,569	33,027	33,100	0.2	31,700	-4.2
MLS® New Listings	41,167	39,821	44,725	55,000	23.0	57,750	5.0
MLS® Average Price ($)	222,860	250,832	346,675	418,000	20.6	450,000	7.7
New Home Market							
Starts:							
Single-Detached	8,233	8,719	10,482	8,000	-23.7	7,250	-9.4
Multiples	5,775	4,948	6,564	6,250	-4.8	6,000	-4.0
Starts - Total	14,008	13,667	17,046	14,250	-16.4	13,250	-7.0
Average Price ($):							
Single-Detached	285,321	315,796	353,662	475,000	34.3	550,000	15.8
New Housing Price Index (% chg.)	5.5	7.0	43.6	16.0	-	7.0	-
Rental Market							
October Vacancy Rate (%)	4.3	1.6	0.5	1.2	-	1.7	-
Two-bedroom Average Rent (October) ($)	806	808	960	1,075	12.0	1,140	6.0
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	-	7.19	-
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	-	7.41	-
Annual Employment Level	598,700	605,900	655,100	683,900	4.4	698,200	2.1
Employment Growth (%)	2.6	1.2	8.1	4.4	-	2.1	-
Unemployment rate (%)	5.0	3.9	3.2	3.3	-	3.5	-
Net Migration	11,451	20,767	31,223	22,000	-29.5	18,000	-18.2

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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